3/4/88 R5650-2

JAPAN · ECONOMIC · INSTITUTE

JEI REPORT

A Two-Part Report: A and B

NO. 8B
February 26, 1988

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Trade Bill Could Depend On Primary Results

Legislators have finally started work again on HR 3, the omnibus trade bill. During the week of February 15, subconferees from the House Ways and Means and Senate Finance Committees met to review the proposals under their jurisdiction, but the sessions amounted to nothing more than a verbal "walk-through." Chairmen Dan Rostenkowski (D, Ill.) and Lloyd Bentsen (D, Tex.) said they will begin the formal voting process during the week of February 22 and have pledged to send a bill to the House and Senate by the beginning of April.

Interestingly enough, the subconference is scheduled to consider the least controversial items first. Issues that involve fundamental differences of philosophy, such as unfair trade practices cases (Section 301 of the Trade Act of 1974), relief for industries that are hard-hit by imports (Section 201 of the Trade Act of 1974), special market access provisions, antidumping and

If this happens, Japanese banks will be ahead of the game. If they believe that they have to grow in California to defend their position against the expected onslaught from the New York banks, the recent mergers and reorganizations put them in a position to do so at reasonable cost. If they agree with observers that the competitive situation will eventually make it difficult for any bank to make money in California, they will have substantial banking organizations in place to sell to the very outsiders expected to create the feared chaos. In this scenario, they could make handsome short-term profits and get out before problems arise.

In an apparent effort to stop Japanese institutions from acquiring more banks in the state and to answer the criticism of New York banks, California may move up the date for the introduction of full interstate banking. Japanese and other banks that have positioned themselves to benefit from interstate banking will be able to do so sooner, shortening the payback period on their investment.

Douglas Ostrom

Rough Sailing For Japan's Shipping Companies

While many industries appear to be adjusting to the strong yen relatively comfortably, Japan's international ship operators have taken a direct hit. The sixth-largest company, Showa Line, Ltd., recently announced plans to discontinue liner service, even on its major run, the North American route. Elimination of this service, which accounts for 30 percent of the firm's revenues, will permit Showa to concentrate on more profitable aspects of the business. All six large Japanese ship operators are losing money. In fiscal year 1986, which ended March 31, 1987, Showa lost Y14.3 billion ($114.4 million at Y125=$1.00), while total losses for the six were Y69 billion ($552 million). At least two more companies are expected to drop out of the North American liner market, leaving three Japanese companies in operation.

Chronic worldwide overcapacity in the shipping industry has led to rough competition. Showa, for example, has been unprofitable since 1984. The appreciation of the yen that began in 1985 has made matters worse. With rates set in dollars, revenues in yen have declined as the dollar has depreciated. Costs, part of which are in yen, have been less affected. When Japanese and other ship operators succeeded in raising east-bound rates between 1982 and 1984, shipping companies re-deployed ships from other parts of the world to the North Pacific, driving rates and profits down in early 1985. The two leading Japanese shipping companies, Nippon Yusen Kaisha, Ltd., and Mitsui O.S.K. Lines, Ltd., are reported to be negotiating a joint operating agreement for the North Pacific route and may eventually establish a new company to serve the market.

But Japanese firms are not the only ones with problems; two U.S. companies entered the North Pacific business in response to relatively high profitability in 1985 and 1986 but were forced to retreat. One of them, United States Lines, Inc., is now bankrupt. The two largest remaining U.S. companies on the route, Sea-Land Corp. and American President Lines Ltd., are profitable although APL receives an operating subsidy.

Beside stiff competition from the 24 firms from 13 other nations operating North Pacific routes, the six Japanese companies face new problems with their customers. Japanese manufacturers argue that the strong yen has hurt their international competitiveness, and have tried to convince ship operators from Japan and elsewhere to keep rate increases to a minimum.

Already weak because of severe competition, the companies have to deal with the high yen without two options available to their manufacturing counterparts: passing through to their customers part of the currency appreciation and retreating to the domestic market. Unless the yen dramatically reverses course, the industry will continue to suffer. While exports and imports will be as vital as ever to the economy, they will increasingly move on foreign ships. This will be reflected in the transportation figures of the balance of payments (see Table).

Douglas Ostrom

Japan's Trade in Transportation Services

(in millions of dollars)

	Credits (Exports)	Debits (Imports)	Balance
1984	$12,886	$15,917	-$3,031
1985	12,444	15,093	-2,649
1986	11,316	13,853	-2,537
1987*	12,890	19,297	-6,407

*Preliminary

Source: Bank of Japan

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The views expressed in this report are those of the authors and do not necessarily represent those of the Japan Economic Institute.

Trade and Payments Data
(in millions of dollars unless otherwise indicated)

	1985	1986	January-December 1986	January-December 1987	October 1987	November 1987	December 1987
Japan's Balance of Payments							
Trade Balance	$55,986	$92,827	$92,827	$96,464*	$7,769*	$6,638*	$10,061*
Exports (f.o.b.)	174,015	205,591	205,591	224,432*	20,097*	18,601*	22,796*
Imports (f.o.b.)	118,029	112,764	112,764	127,968*	12,328*	11,963*	12,735*
Current Account Balance	49,169	85,845	85,845	86,688*	6,546*	5,792*	9,437*
Long-Term Capital (net)	-64,542	-131,461	-131,461	-137,127*	-18,476*	-14,133*	-5,921*
Overall Balance	-12,318	-44,767	-44,767	-29,545	-14,570	-5,420	1,564
International Reserves (end of period)	26,510	42,239	42,239	81,479	73,050	78,044	81,479
Japan's Customs Clearance Trade							
Trade Balance	46,099	82,743	82,743	79,833*	6,816	4,746	8,601*
Exports (f.o.b.)	175,638	209,151	209,151	229,228*	20,666	18,939	23,327*
Cars	25,402	32,945	32,945	35,714*	3,154	2,930	3,250*
Steel	13,566	12,706	12,706	12,608*	1,092	1,038	1,427*
Imports (c.i.f.)	129,539	126,408	126,408	149,395*	13,851	14,193	14,726*
Crude Oil	34,599	19,481	19,481	20,657*	1,747	2,017	2,002*
Japan-U.S. Trade							
Trade Balance	39,485	51,401	51,401	52,138	4,988	4,209	4,910*
Exports (f.o.b.)	65,278	80,456	80,456	83,580	7,732	7,019	8,004*
Imports (c.i.f.)	25,793	29,054	29,054	31,442	2,744	2,810	3,094*
U.S.-Japan Trade							
Trade Balance (f.a.s./c.i.f.)	-49,749	-58,575	-58,575	-59,825	-5,864	-4,847	-4,792
Exports (f.a.s.)	22,631	26,882	26,882	28,249	2,392	2,638	3,001
Imports (c.i.f.)	72,380	85,457	85,457	88,074	8,257	7,485	7,793
Trade Balance (f.a.s./Customs)	-46,152	-55,030	-55,030	-56,326	-5,540	-4,541	-4,471
Exports (f.a.s.)	22,631	26,882	26,882	28,249	2,392	2,638	3,001
Industrial Supplies	8,680	8,752	8,752	10,156	801	973	1,148
Capital Goods	5,939	6,728	6,728	7,769	622	778	931
Food and Feed	5,001	5,043	5,043	5,555	563	478	394
Consumer Goods	1,416	1,690	1,690	2,551	231	197	233
Imports (Customs)	68,783	81,911	81,911	84,575	7,932	7,179	7,472
Automotive Products	24,980	32,849	32,849	33,695	3,129	2,867	2,884
Capital Goods	21,516	25,334	25,334	28,947	2,675	2,455	2,720
Consumer Goods	14,017	15,451	15,451	13,385	1,408	1,139	1,127
Industrial Supplies	7,035	6,949	6,949	7,281	617	598	629

*Preliminary

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1985	1986	January-December 1986	January-December 1987	October 1987	November 1987	December 1987
Discount Rate (end of period)	5.0%	3.0%	3.0%	2.5%	2.5%	2.5%	2.5%
Outstanding Money Supply	8.4%	8.7%	8.7%	10.4%	11.7%	12.4%	11.5%
Industrial Production	4.6%	-0.4%	-0.4%	4.0%	9.0%	10.5%	9.2%
Manufacturing Operating Rate	1.2%	-4.8%	-4.8%	1.2%	6.0%	7.9%	7.6%
Number of Bankruptcies	-9.7%	-7.1%	-7.1%	-27.6%	-35.2%	-32.7%	-32.5%
Residential Construction Starts	4.1%	10.4%	10.4%	22.7%	26.6%	25.2%	20.8%
Job Openings to Applications (ratio)	0.68	0.62	0.62	0.70	0.78	0.81	0.85
Nominal Wages	3.6%	3.5%	3.5%	2.7%	4.0%	3.0%	3.3%
Labor Productivity	4.2%	2.3%	2.0%*	5.0%*	n.a.	n.a.	n.a.
Wholesale Prices	-1.1%	-9.1%	-9.1%	-3.7%	0.1%	-0.7%	-1.1%
Consumer Prices	2.0%	0.6%	0.6%	0.1%	0.7%	0.7%	0.8%
Yen-Based Export Prices	-1.5%	-15.1%	-15.1%	-5.1%	-2.3%	-6.3%	-8.2%
Yen-Based Import Prices	-2.4%	-35.8%	-35.8%	-8.3%	8.0%	1.9%	-1.9%

*Through September of each year only.

For Japan's most recent GNP figures, see JEI Report No. 46B, December 11, 1987.